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Economic Conditions
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General Business Conditions

THE general course of business during the past month has been satisfactory. Reports come from here and there of disappointment that orders are not flowing in a larger stream, that industry is not operating at capacity and that margins of profit are small. Such complaints always are heard except in boom times, when the pressure of abnormal demands gives enough business for everybody. The ordinary state of business is that in which competition exists, with full industrial capacity a little ahead of consumption requirements and marginal producers having a rather difficult time.

Profit-margins change very readily as the markets swing from the position in which buyers have the upper hand to that in which sellers have it. Of course sellers like to have things their way, but nothing is more certain than that under ordinary conditions they cannot have them just to their liking for very long. If there is a congestion of orders, so that competition exists for goods instead of orders, prices go up and costs tend to follow, with the result that unless business soon falls off the situation will get seriously out of balance and depression will take the place of prosperity. A lot of price and wage advances occurred in the Spring of 1923 which for the good of all concerned had better not have taken place.

The confidence in good times which has been displayed of late is generally based upon the belief that conditions are more nearly right for a free, full, exchange of goods and services than they have been for a long time. The principal condition for such exchanges is that the price-relations shall be approximately those to which the people are accustomed; in other words, that what everybody has to sell shall command about the usual quantity of other things. When this is the case there will be employment for all and the products will move into consumption.

That situation does not exist completely, but great improvement has taken place in the last year and more is going on. The prices most seriously out of line since 1920 have been those of farm products. A year ago the McNary-Haugen bill was the most conspicuous measure before the Congress, and its provisions were intended to raise the prices of certain leading farm products to the "pre-war parity" with other products, the price-tables of the Bureau of Labor being adopted as the basis for the proposed operations. The latest of these price-tables, which is for the month of January, 1925, shows that its group of "farm products" now averages 63 per cent above the 1913 price level, while its entire list of commodities, including farm products, averages 60 per cent above that level. Moreover, the outlook for farm products is good. It is possible now to sell wheat for delivery in September at about $1.50 per bushel in Chicago, and the disparity between corn and live stock is being corrected.

The volume of trade, measured by the accustomed standards, is large. Bank clearings are running ahead of the corresponding weeks of last year. Car-loadings since the 1st of the year have been larger than ever before for the period, although coal-shipments fell below last year, when buyers were laying in stocks against a possible strike. The Federal Reserve Board's summary of industrial conditions for January reports that the production of basic commodities in January reached the highest point since the Spring months of 1923, and was 34 per cent above the low point of last Summer. Railway equipment orders have continued on a good scale. The steel industry is working close to capacity. Unfilled orders of the United States Steel Corporation showed a further increase of 200,000 tons in January, after a big increase in December. Pig iron production in January was 3,367,264 tons, which is above any previous figures for that month, and at a yearly rate close to the record. Bradstreet's report of building permits in 163 cities in January showed an aggregate of $211,000,000 against $218,000,000 last year. Production of lumber thus far this year is practically the same as in the same time last year. Cotton consumption by mills in January

was 589,700 bales against 532,000 in December and 578,000 in January last year. Raw silk consumption in January was 39,800 bales, against 32,900 in that month last year.

The Monthly Review of the Reserve Bank of Minneapolis states that the total dollar value of business transacted in that Reserve district during December as shown by the individual debits at banks in 17 selected cities was more than one-fourth greater than a year ago.

The automobile industry started the year 1925 with a more conservative policy than that with which 1924 was inaugurated. Indeed, the conservative policy was adopted before 1924 was many months old, and caused a general clearing up of inventories before the end of that year. Manufacturers began 1925 with small stocks and a resolution to cut out their work as they got it to do. The report of sales is encouraging and production in January and February has been at a rate surpassed only in 1924. The reduction in prices of closed cars has stimulated the demand for them, and this model has become the standard.

Winter wheat has come through the season in good condition. The price of wheat after suffering a decline of 28 cents per bushel from the top has recovered about two-thirds of it. The test of the market will come in the next few weeks, for only four months remain until new wheat will begin to appear in the southwest markets. The price of wheat for May delivery is about 35 cents per bushel below that for July delivery, and naturally dealers will not buy flour or mills buy wheat from now on excepr is they are sure of ability to pass it on for consumption before flour from the new crop is available. World shipments are very heavy. In the week of February 20 the aggregate from all exporting countries was 19,000,000 bushels, and at the close of the week 82,000,000 bushels were on the oceans bound for Europe. The United States Department of Agriculture on November 25 last, estimated the total world movement to June 30 at 705,000,000. Seven months' exports of wheat, including flour, to January 31st aggregated 194,880,000 bushels, against 112,366,000 in the corresponding period of 1923-4. The visible supply in the United States is slightly above that of last year at this time, but the amount in farmers' hands is believed to be less. Argentina and Australia are the heaviest shippers at present. Estimates of the amount the United States still has available for export range from 50,000,000 to 65,000,000 bushels. The new crop futures are strong, and even stronger in Liverpool than Chicago, indicating a belief that the carry-over will be small and that the world will want all the new crop at good prices.

The Brookmire Bulletin has made the following calculation upon United States supplies and distribution, dated February 26:

		Bushels
Crop 1924	873,000,000	
Carry over July 1, 1924	102,000,000	
Total Supplies		975,000,000
Consumed to March 1	505,000,000	
Exported to March 1	210,000,000	715,000,000
Balance March 1		260,000,000
For consumption to July 1	150,000,000	
For Export to July 1	65,000,000	215,000,000
Carry over July 1, 1925		45,000,000

It will be seen that this reduces the carry-over to 57,000,000 bushels below that of last year.

The Pacific Coast situation is much better than last year. In the northwest and in northern California the prolonged drought has been effectually broken. There is plenty of water in the mountain reservoirs for irrigation and power. In southern California the rains have not been as heavy as in the north, but the storage supply of water has been replenished. The citrus fruit crop was seriously hurt by frost in December, but prices are higher in consequence, so that the net results to producers will be about as usual. In eastern Oregon the winter wheat crop was winter-killed, but the Oregon legislature has passed a bill appropriating $1,500,000 to provide seed wheat to be loaned to farmers to enable them to put in a crop of spring wheat. The lumber industry on the north coast is in good condition and a spirit of confidence prevails up and down the entire coast.

While there have been heavy rains in the Atlantic coast cotton states, Oklahoma and Texas are dry. Weather Bureau figures show an average of only 4.53 inches of rainfall in Texas from October 1 to February 1, against a normal of 9 inches. Prices on spot and futures moved up above 25 cents per pound in the last days of February. Cotton goods have been moving a little more freely, but manufacturers still face the familiar problem of how to get prices that will let them out whole on existing production costs. Foreign demand for cotton is a constant factor in the price, exports from August 1, 1924, to February 25, 1925, aggregating 6,017,188 bales, against 4,172,870 bales in the corresponding months of 1923-4 and 3,582,438 bales in the corresponding months of 1922-3.

Money and Banking

The Federal Reserve Bank of New York on February 26th advanced the rate of discount from 3 per cent, where it had stood since August 8, 1924, to 3½ per cent. The course of events for several months has been toward higher rates for credit and open market rates have been stiffening. The demand for money has been increasing, gold exports have been depleting the New York reserves, and now the

season of the year has arrived when interior balances in New York usually are reduced.

Rediscounts at the twelve Federal Reserve banks increased from $202,700,000 on January 21 to $433,800,000 on February 25, and of this $231,000,000 increase, approximately $190,000,000 was at the New York bank, and was mainly due to the depletion of member bank reserves by gold exports. In fact, rediscounts fell off slightly at all the reserve banks west of Cleveland and Richmond.

The reserve bank of New York has been the only one of the reserve banks, and the only central bank in the world, maintaining during the past year a discount rate of 3 per cent. The rate at the Boston, Cleveland, Richmond and San Francisco reserve banks has been 3½ per cent and at the other reserve banks 4 per cent. In view of the fact that the brunt of gold exports has fallen upon the New York bank and that the reserve banks have been reducing their security holdings in this market, not to speak of the signs of more active business, it was quite in order to bring the New York rate up to at least 3½. Under the circumstances it is easy to exaggerate the significance of this advance, and the tendency to do so shows an undue inclination to discount the future. The change reflects recovery from the stagnant conditions of last Summer, but 3½ per cent is still the lowest rate in the world for money and its adoption need not be interpreted as a warning that a state of dangerous expansion is threatened. There should be an opportunity to enjoy normal conditions for awhile without alarm.

The discount rates of the principal foreign banks of issue as last reported were as follows: London 4, Paris 7, Berlin 9 (reduced from 10 February 26), Brussels 5½, Amsterdam 4, Copenhagen 7, Stockholm 5½, Oslo (Christiania) 6½, Helsingfors 9, Danzig 10, Riga 8, Prague 6, Vienna 13, Warsaw 12, Swiss Bank 4, Rome 5½, Madrid 5, Dublin 5, Calcutta 7, Tokio 8. These rates are for discounted bills; rates on advances are 5½ in London, 8 in Paris, 11 in Berlin, and above the discount rates everywhere.

New York banks have been lightening their load of investments slightly on account of the drafts on their reserves, and the volume of loans, discounts and investments for the country as a whole is not quite so high as several weeks ago, but in the week ended February 18 loans and discounts increased $57,000,000. Undoubtedly the actual increase thus far has been of less importance than the loss of reserves, but the season for increases is just beginning. Call money rose in the last week to 5 per cent and rates for all classes and maturities have moved up a notch or so.

The policy of the Federal Reserve banks with respect to open market operations has been one of the most influential factors in the money market recently. On December 31 their holdings of government securities and other open-market purchases aggregated $927,000,000 and on February 25 they had been reduced to $681,940,000. This constituted a withdrawal of about $245,000,000 of credit from use, and amounted to an increase in the demands on member banks to that extent.

The sale last week of $30,000,000 of notes by the United States Rubber Company for the purpose of providing funds to pay off that amount of bank loans illustrates a process of conversion which has been going on for several years and is still tending to replenish the supply of credit for commercial use.

Foreign Trade and the Exchanges

The principal exchanges show the following changes since February 1, 1925:

	Unit Value	Rate in Cents, Jan. 25, 1925	Rate in Cents, Feb. 26, 1925	Change From Par
Canada	1.00	99.92	99.92	.08—
Germany...	.2382	......	23.81	......
Italy	.1930	4.18	4.05	15.25—
Belgium.....	.1930	5.17	5.03	14.21—
France	.1930	5.41	5.16	14.14—
England....	4.8665	479.87	475.75	10.90—
Switzerland	.1930	19.30	19.22	.08
Holland.....	.4020	40.33	40.04	.16—
Denmark...	.2680	17.87	17.84	8.96
Norway.....	.2680	15.32	15.23	11.57
Sweden......	.2680	26.95	26.95	.15+
Spain.........	.1930	14.28	14.17	5.13—
Argentine..	.9648	91.75	90.50	5.98—
Japan.......	.4985	38.62	39.75	10.10

Foreign trade of the United States in January was slightly larger than in December and considerably larger than in January, 1923. Imports were the largest for any January since 1920, but exports exceeded them by $101,000,000.

In the year 1924 our total imports were $3,610,552,566 and our total exports $4,590,146,873, giving a favorable balance not including gold or silver of about $980,000,000. In our trade with Europe we had a favorable balance of $1,348,000,000, with North America $94,000,000, with Africa $2,000,000, and Oceania $110,000,000, while we had adverse balances of $416,000,000 with Asia and of $151,000,000 with South America.

Of our favorable balance of $1,348,000,000 with Europe, the United Kingdom supplied $615,000,000, Germany $301,000,000, France $134,000,000, Italy $112,000,000 and nearly every country something. Our imports from Germany were $139,000,000, against $161,000,000 in 1923 and $184,000,000 in 1913.

Our net exports of gold in January were $69,265,358, and in February have been about $40,000,000, the principal destinations being Germany and India. The present state of our foreign trade does not support the expectation

that this country will continue to lose gold, but this situation may be overcome by free lending.

British Exchange

British exchange has sagged off a few points from the high mark of $4.80⅝, probably due to some realizing on the part of holders who think the time for gold resumption in London is not quite at hand. Causes having to do with the decline of the franc may have been partly responsible, and so also the triangular transactions between London, New York and Australia. The Chancellor of the Exchequer, Mr. Churchill, in answer to an inquiry in the House of Commons, said that it was the policy of the government to return to gold payments at the earliest possible date, but expectation has been keyed up to a point where something more definite was expected. The Chancellor's budget speech next month is now awaited with interest. Interest in London centers in the probable course of events in the United States. With a balance in favor of this country in its trade with Europe of $1,348,000,000 in 1924, and the interest account in favor of this country rising, there is a feeling that Europe's footing on the gold basis is somewhat precarious, unless we continue to lend. They would like to know our probable policy.

The question of the ability of Great Britain to maintain gold payments when they are resumed depends largely upon the "invisible" items in the country's exchange transactions with the rest of the world. Imports of commodities last year exceeded exports and re-exports by the sum of £344,000,000, or, if specie and diamonds be included, by £341,000,000, which is nearly $1,700,000,000. This is only slightly less than the excess in 1920, when prices were at the peak. The increase in 1924 over 1913 was due largely to higher prices for food stuffs and raw materials, but even when the trade of 1924 is revalued on the basis of 1913 prices, it appears that the volume of imports was 7½ per cent larger while re-exports were 3½ per cent less and British exports 20 per cent less.

The British Board of Trade, a government organization, has made a calculation to show how this great adverse trade balance in 1924 was settled. Of course these figures, like those of similar import by our own Department of Commerce, are largely estimates. The net national income from shipping services is calculated for 1913 at £90,000,000 and for 1924 at £130,000,000. The net figures for earnings of British investments abroad are put down at £210,000,000 in 1913 and £185,000,000 in 1924, after allowing for the reduction of investments in the United States and interest payments to this country. The earnings of bankers, brokers, insurance companies, commission-dealers and similar services are put at £40,000,000 in 1924, an increase of 60 per cent over 1913. Tourists' expenditures in Great Britain and family remittances from abroad, etc., are put on balance at £15,000,000. The net total of these four classes of transactions is £370,000,000, or about £29,000,000 in excess of the adverse balance on merchandise and specie account, a sum equal to about $138,000,000 at the present rate of exchange. This excess is assumed to have been reinvested abroad, and compares with £184,000,000 or about $892,000,000 in 1913.

If these figures could be verified even as closely as the figures for merchandise imports and exports they would be quite reassuring, notwithstanding the great decline, but there is so much room for error in them that they hardly can be regarded as proving conclusively even that there is a balance on the right side. However, the latter probably is true.

The Union of South Africa, has announced that it will return to the pre-war gold basis on July 1st next, Australia will gladly do so whenever Great Britain does, for it is much embarrassed by its exchange relations with London. Canada would undoubtedly follow Great Britain and some Canadian opinion is in favor of prompt independent action.

At the beginning of 1924 the Canadian dollar was about 2½ per cent below the United States dollar, and the disparity increased to about 3½ in March, then gradually declined to August when the two dollars looked at each other eye to eye. At present the difference is only a fraction of a cent.

India's Imports of Gold and Silver

India took both gold and silver last year in almost record-breaking sums. Her total absorption of gold was 7,003,000 ounces, or about $145,000,000, and in the last three years has been about $350,000,000. These figures were slightly exceeded in the calendar year 1912 and the three year 1911-13, but aside from these are the high record.

In 1924 India received 97,817,000 ounces of silver, against 99,284,000 in 1923 and 72,015,000 in 1922. For these three years the total was 269,000,000 ounces, which compares to 103,000,000 ounces in the three years preceeding the war. High prices for her products and large trade balances explain her acquisition of the precious metals.

The French Exchange

French francs have been under pressure again during the past month, as appears above. The budget problem is not cleared up, and the situation is strained by reason of the close approach of the bank note circulation to the legal

limit and the restriction upon credit enforced by the Bank of France on that account. A French correspondent of the London Economist explains that the increase in the circulation in the past year and a half, which is now a source of embarrassment, has been due to the fall in the exchange value and consequent purchasing power of the franc. He emphasizes that it has not been due to increased loans by the Bank to the Government. The latter have been reduced since 1922 from 27 milliards to 22 milliards. The increased circulation he maintains has followed the rise of commodity prices, which require the use of more currency notes in circulation. The rise of prices, he says, has been gradual, lagging behind the decline in exchange, so that the effect has persisted after the recovery in exchange which occurred last spring. This view seems to be supported by the record. In December, 1923, when the exchange value of the franc fell rapidly, causing an immediate rise of prices, there was a similar rise in the demands on the Bank for accommodation and in the paper money issues. The discounts and advances of the Bank in February, 1923, were 5,231,000,000 francs, notes in circulation 37,434,000,000 francs; in February, 1924, the discounts and advances had risen to 6,280,000,000 and note circulation to 39,344,000,000; at the close of February, 1925, discounts and advances were 8,000,000,000 francs, circulation 40,797,000,000.

Evidently it is a vital question whether the impulse to this inflation comes from the increase of bank loans, bringing the depreciation of the franc in its trail, or from pressure on the exchange, with depreciation of the franc and a demand for more bank credit as a consequence.

The legal limit of the note circulation of the Bank of France is 41,000,000,000 and up to a little more than a year ago the Bank had a margin of about 4,000,000,000, which was ample to allow of its taking care of seasonal fluctuations without any stringency. Now, however, notwithstanding the fact that the French Government has reduced its borrowing, the Bank is almost to the limit, working upon an inadequate margin.

The Bank, the Government and financial opinion generally is opposed to inflation, and has been firmly resolved not to have the legal limit raised. The rate of discount has been raised and credit is being restricted, but this has unfavorable effects both economically and politically. Various devices have been resorted to in order to reduce the circulation. Bank patrons are urged to use cheques instead of bank notes and Bank of France notes have been withdrawn from the Sarre basin. Such efforts obviously only provide substitutes for the currency without reducing the demand for it or curing the situation.

The country had a surplus of exports over imports in 1924, and tourists' expenditures are a large item of income which does not show at the custom houses. Under these circumstances it is difficult to account for the weakness of French exchange except by an outward movement of capital. The large internal maturities this year are an element of weakness in the financial situation, and the intense political antagonisms have ill effects. Confidence in the Government and united popular support are highly important at this time. France has so nearly turned the corner in her capital expenditures, that Frenchmen should not lose faith now.

Gold for Argentina

In order to facilitate additions to the supply of currency in Argentina during the present crop-moving season the Minister of Finance of that country has authorized deposits of gold in New York to the credit of Argentine Embassy, Washington, against which the Caja de Conversion, Buenos Aires, will pay paper pesos at a fixed rate. The pesos are to be repaid and gold released at the same rate, 40 per cent at the end of 90 days, 30 per cent in 120 days and 30 per cent in 150 days.

British Bank Reports

The annual meetings of the leading British banks are the occasion of carefully prepared addresses by the chief executive officers, in which the general state of trade, industry and finance is reviewed in an interesting and instructive manner. This year these addresses nearly all have set forth the consummation of the Dawes plan as the most important development of the year 1924, according it high praise and expressing confidence that it will be successful in accomplishing a settlement of a very perplexing and dangerous controversy.

Evidently these bankers do not have entire confidence in the ability of Germany to make the payments scheduled.

The subject standing next in importance and amount of space given to it has been the recent rise of sterling exchange and the prospect for a resumption of free gold payments. Although a spirit of caution pervades the comments, there is unanimity in favor of a return to the gold basis as soon as practicable. All consider that the foreign loans made by the United States in the past year have been an important factor in the improvement of the exchange, and this makes them a little doubtful of the permanency of the recovery.

The leading feature of banking figures for Great Britain in 1924 was an increase in the sum total classed as "advances." As distinguished from "bills," which are drawn against shipments and represent completed commercial

transaction, these are loans made to bank customers to carry on operations or for investment purposes. The statements of the London clearing banks showed an increase from an average of about £767,000,000 in the month of November 1923 to approximately £827,000,000 in November 1924, or about 8 per cent. In view of the fact that the number of unemployed was no less at the beginning of 1925 than in the beginning of 1924, it will not do to stress these figures very heavily, but at least they indicate increased activity or confidence.

During the same period the banks reduced their investments by the sum of £31,000,000, a movement similar to that which has been going on in the United States, and which here we attribute to an increasing demand on the banks for commercial uses.

Deposits declined £3,000,000, which is only partly accounted for by the decline of investments. These figures are from the London Times Financial Review.

Mr. Pease, of Lloyd's

Mr. J. Beaumont Pease, chairman of Lloyd's Bank, said upon the Dawes Plan:

The Dawes Report was produced on April 10 and accepted by the Reparations Commission. In July the London Conference succeeded in establishing a harmony which had long ceased to exist between the Allies, adopted the recommendations, and set up a series of mixed committees to carry them into effect. I regard the adoption of this Report as the outstanding event of the year, and as an indication of a real return to sanity on the part of the nations involved. It constitutes the chief practical attempt we have yet seen to sweep up and tidy into heaps the litter caused by the war. It created a new enthusiasm and was undoubtedly largely responsible for the greater feeling of optimism observable in the latter half of 1924.

Before I refer to some of the other events in the tidying process, I would like to examine shortly some of the criticisms raised against the Dawes Report itself. They are aimed from different angles. On the one hand, it is feared that, without a complete moratorium of several years for Germany, even after due allowance has been made for the effect of the German loan, which was an integral part of the scheme, it may break down in the initial stages. On the other hand, the natural prejudice against a loan to an ex-enemy was combined with the fear lest a rehabilitated Germany would constitute a serious competitive menace to our own industrialists. Time alone will show whether the experts erred on the side of optimism in believing that, with the proceeds of the loan and the interest on the German railway bonds, etc., Germany would be able to meet the cost of the armies of occupation, deliveries in kind, and similar liabilities, without encroaching on any revenue from the ordinary Budget in the first two years. But even if this does not prove to be possible, it should not necessarily involve the breakdown of the whole scheme, for there is a provision against the possibility of a default arising, if it is unavoidable and not due to bad faith on the part of Germany. In regard to the other criticism, the public of all the Allied nations took a broad, and I believe a statesmanlike, view. They argued, as the experts themselves have stated, that "the reconstruction of Germany is not an end in itself. It is only part of the larger problem of the reconstruction of Europe," and the issue of the loan was a triumphant success.

The competitive advantage in international trade which Germany now has, owing to the fact that her internal debt has been practically wiped out by inflation, will be largely counterbalanced by the increased taxes and charges on industry which will have to be levied to provide reparation payments. With the stabilization of her currency, one of the competitive advantages will disappear, while the receipt by us of German reparation payments, whether in kind or cash, although it may temporarily depress some of our export industries, will increase the real income of our people generally, and therefore add to the purchasing power of our home markets. It must also be remembered that German imports at present largely exceed her exports, and there is still a long way to go before her exports reach their pre-war level, and any disadvantage which we may suffer from her competition will, in my opinion, be more than counterbalanced by the beneficial results of a revival of international trade which the Dawes scheme is likely to bring about. I trust that it is not too much to hope that the economic regeneration of Europe has now definitely commenced. The example of the help given to Austria has been followed by similar aids to Hungary, Czechoslovakia, and Greece.

Referring to gold resumption he said:

I do not propose to detain you at any length on this controversy. There is in fact really no controversy. The whole world, though guilty of infidelity in varying degrees and in divers places, and in spite of some coquettings in other directions, is returning to its old love. There is no effective rival of any standing or consequence. Gold is almost universally recognized as the only practical international measure of values, and the only real problem for us is the precise date when we can safely re-establish a free market in gold. England has frequently shown that she is not without courage in facing her economic problems, and there are indications that a bold policy would not be lacking in success.

Mr. Walter Leaf, Westminster Bank

Mr. Walter Leaf, Chairman of the Westminster Bank, said, in part:

The Dawes Report is, by common agreement, the most important State document which has appeared since the Versailles Treaty, and shows a width of view combined with a stern but reasonable and impartial sense of justice which distinguish it in various ways from the earlier document. The work of the men of business does not suffer by comparison with the work of the politicians.

The scheme is one which will work perfectly, so far as the provision of gold marks within Germany is demanded. The security for the loan is of the highest class, and the various mortgages on the railways, industry, and revenues of Germany are such as to ensure that the taxation of the German will not be less than that of the chief Allied nations. Germany is accorded, before payments in cash are to be made, a moratorium of two years to give her time to put her economic system into order—none too long after the complete collapse which has overtaken it.

For the first two years it would seem that our own industry has nothing very serious to fear from German competition. It is true that Germany has provided herself, during the collapse of the mark, with a fine equipment for production; it is true also that wages in Germany for skilled workers are very low compared with those at home, even in those of our industries which are exposed to international competition; for instance, in the engineering trade, it appears that skilled workmen in Germany, such as fitters and pattern-makers, are paid at the rate of some 60 or 70 pfennigs per hour—say, 7d. to 8d.—about half what our own workers get. On the other hand, it must be remembered that, owing to the annihilation of working capital, it is with great difficulty that the cash to provide even these modest wages can be found; industries of the highest standing have to pay such rates as 12 per cent per annum and upwards for loans, and this rate of interest forms a very serious charge upon the cost of production. And it is not to be supposed that the German workman will long consent to work for wages which are no more than half what are being paid on this side of the Channel.

Probably the first use to which the German manufacturer will have to put his profits will be some approach to the pre-war standard of living for the worker. And meantime the manufacturer has to import a far larger proportion of his raw material from abroad than was the case before the war. His resources, alike in coal and iron ore, have been very seriously reduced by the Treaty of Versailles. And this extends to the partly worked commodities which are the raw materials of further industry. It would seem that whereas in 1913 Germany exported some 660,000 tons of pig iron more than she imported, in 1922 she imported nearly 140,000 tons more than she exported. There has been a similar turnover in the relation of exports and imports of half-finished iron goods. Germany has a long road to travel before she can become an exporter of goods on a scale which will enable her to pay large sums for reparations; and it is for the purpose of helping her over this difficult interval that the recent loan of £40 millions was raised for her in London, Paris, and New York.

But when the two years of recuperation have given way to the unlimited years of reparation, how shall we stand? The creditor nations have at length, I believe, accepted, though reluctantly, the undeniable truth that payment can be received only in the form of goods; and how the enormous excess of exports which we are forcing upon Germany is to be absorbed by the world at large without a ruinous competition with our own export trade is a problem which is now exercising the best brains of Europe and America.

The Gold Standard

You will excuse my bringing the question of the German indemnities into the foreground; I have done so because I believe that we have reached a critical point in the economic development of Europe and America alike: the production of the Dawes Report has been the dominating event of 1924, the preparation for its results must be the clue to our forecasts for many years to come. It has already begun to bear fruits. Among these is one notable fact, the appreciation of the pound sterling in terms of dollars. This has taken place in spite of obvious difficulties—large sterling loans to foreign countries, an increase in what is called the "adverse" balance of our foreign trade, a rise in our own index number of prices of about the same magnitude as that of the American index. If, notwithstanding all these adverse circumstances, sterling has continued to rise, we can only attribute it, I believe, to an anxiety in the United States, to employ on this side of the Atlantic that immense power of credit which has been given them by their accumulations of gold. America has grown tired of sterilizing this great fund and is seeking to make some interest on it. An increased knowledge of economic conditions in Europe arising from the study of the Dawes Report, a firmer belief in the stabilization of conditions on this side of the Atlantic, and, particularly in the case of Great Britain, a growth of confidence due to our steady Budget surpluses and in no small measure to our action in funding our debt to the United States—all these have led to a desire to invest American money on this side of the water.

It is estimated by the National City Bank of New York that loans to foreign countries issued on the New York market amounted in 1924 to no less than $1,200 millions, say £240 millions sterling. The estimate of the "Economist" for London is that we lent in the year a little over £72 millions to our Dominions and £52 millions to foreign countries. This is about half of what America has lent abroad; and this large excess seems to be sufficient explanation of the change in the relative value of the dollar and the pound. It is true that less than half the American total is said to have been taken for Europe; but it must be remembered that, in estimating the external value of a currency, the exchanges of the whole world have to be taken into consideration. When, for instance, we had the satisfaction of bringing out in the spring a large loan for our Japanese friends, we did so in conjunction with the American banks, and the fact that they relieved us of a good half of the export of capital was to that extent an assistance to the relative value of the pound as compared with the dollar.

It does not, of course, follow that because we have arrived at parity we can at once remove the embargo on the export of gold. This is due to expire at the end of 1925, and one may at least confidently hope that it will not be renewed. Indeed, it is not at all improbable that before the end of the year we may see a flow of gold back to Europe, and that the question of export may for the time be of purely academic interest. But it will be necessary to look forward and assure ourselves that we have the power to keep the gold when it comes to us. There is no doubt that we are at present somewhat dangerously dependent on the current of opinion in the United States; and it is necessary to be assured of their good will in maintaining as well as in establishing the gold standard on this side of the Atlantic. One begins to wonder whether the time may not have arrived for that conference of national Banks of Issue, for the formulation of a scheme of cooperation in regard to gold reserves, which was called for by the Genoa Conference.

Meanwhile, however, the re-establishment of the parity is of immense assistance to international trade. It will be welcomed particularly by our great Dominions in Australia and South Africa. It will diminish to us the cost of the great purchases of raw material which we have to make in the United States, notably of wheat and cotton.

Mr. Goodenough, of Barclay's Bank

Mr. F. C. Goodenough, Chairman of Barclay's Bank, said in part:

The feature of outstanding importance at the present time, to which the attention of everyone is directed, is the rapid rise in the sterling-dollar exchange. This rise represents to some extent a reaction from the undue depreciation of sterling which occurred in 1923. In February of that year the exchange stood at $4.72¼, and from that date until the following October there was a steady depreciation to $4.47¼. The fall was due, in part, to the divergence between interest rates in this country and in America, and at the lower figure sterling was undervalued. Nevertheless, there was a further fall subsequently, owing to the rumors that the British Government intended to have recourse to inflation. After that, there was a more or less general apprehension that a Labor Government might have recourse to confiscatory measures. Some people, therefore, sold sterling securities and reinvested in dollar securities, and these operations, coupled with the usual autumn requirements for financing imports from America, and the purchase of dollars for the service of our American debt, forced sterling down to the low level of $4.20 in January, 1924. As the fears to which I have alluded were found to be unwarranted, a reaction followed, and the recent rise, although it has occurred partly during the import season from America and while there has been a continual purchase of dollars for payment of debt as before mentioned, has brought the figure to a higher level than at any time since the Armistice. There has been a reduction of money rates in New York and a hardening of rates here which have brought about the transfer of money to this side. Sterling has risen since July from $4.31⅞ to $4.78, its present figure, being an increase in value of over 10 per cent, so that the £ sterling is now worth about 19s 8d in gold; that is to say, it is within about 2 per cent of gold parity, or, in other words, of the theoretical gold value of the £. It was to be expected that the acceptance of the Dawes Report would also have a beneficial effect on the exchange.

There has also been a change in the relative price-levels of commodities between America and this country. Wholesale prices in America have risen from the index number of 142 in January, 1922, when the exchange stood at $4.22, up to 160 in November, 1924, being a rise of 18 points, while the index number in this country was only 6 points above the figure—namely, 170—at which it stood in January, 1922. In both countries there has been considerable fluctuations in the level of prices in the intervening years, and of late, since the recent rise in exchange commenced, the rise in prices in this country has been only slightly less than that in America. This might

be regarded as a contradiction of the purchasing parity theory. But there have been other factors which have together contributed to the upward movement, besides which a study of the movements of the exchanges in recent years shows that over a long period the rate reflects changes in the relative price levels, but for various reasons the actual rate ruling at any one time may be above or below the purchasing parity. * * *

Owing to these various causes which I have indicated, it is certain that sterling will return to gold parity, the only matter of doubt being the precise date of such return. The present indications would seem to show that it cannot be far distant, and the question must arise, therefore, in due time, as to the removal of all restrictions in regard to gold shipments from this country and the resumption of specie payments. It is of the greatest importance that there should be an early return to a free gold market for London, provided, of course, that proper safeguards can be ensured so that we should not have to revert to inconvertibility after once that step has been taken.

Many people fail to understand why a return to a free gold market is of such great importance, and are inclined to think it would suit our manufacturers better for this country to maintain the internal purchasing power of the £ sterling at a higher level than its external value in order to encourage exports. They imagine that the financial and industrial interests of this country are divided and opposed to each other in this particular matter. Such, however, is not the case. We have to pay our debts abroad, and we have to purchase raw materials from abroad, and, if we are to provide markets for our manufacturers and promote the production of raw materials for them to deal with, we have also to invest capital abroad. The uncertainty involved in dealing with these matters will be less if our currency is at parity than if it is at a fluctuating discount in foreign markets, and these considerations outweigh any temporary advantage which might accrue to us through a depreciated currency of varying value in which wages, even though they may be adjusted from time to time, would be paid as though the currency were of full value, while the wage-earners' cost of living would be regulated on the basis of gold value.

Mr. McKenna of the Midland Bank

Mr. Reginald McKenna, Chairman of the Midland Bank, discussed at length the subject of money and credit, the gold standard and the operations of the Federal Reserve system. Mr. McKenna heretofore has raised objections to the Cunliffe Committee policy for the resumption of gold payments, and has even seemed to lean toward the group which has advocated cutting loose from gold as the standard of value. These views find some expression in the present address, in an argument to show that the paper pound sterling, which has ranged from $4.20 to $4.80 in the past year has been a more stable standard of value in the last three years than gold. However, the rise of sterling to within about two per cent of par seems to have removed whatever doubts he may have had of the advisability of again definitely attaching British currency to the gold standard and at the former gold value.

He reviews the fluctuations of British exchange and of prices, as follows:

During the ten years that the currency note has been in existence our currency has varied widely in value in relation to its nominal gold equivalent, or in other words in relation to the dollar. The sterling exchange has ranged from 3.19 to a point within 2 per cent of parity. In February, 1923, it reached 4.72, and in January, 1924, it fell again to 4.21. The pound sterling is now finding its way back to parity and will probably soon stand at its full gold value, not because it will have climbed uphill to meet the dollar but because the dollar under the pressure of the surplus supply of gold will have come down to the level of the pound. In forecasting the immediate future relation of the two currencies many factors have to be taken into account, but ultimately the dominant consideration is the relative movement of prices in the two countries. The index figure of wholesale prices marks changes in the purchasing power of a currency, and the fluctuations of the index figure measure the degree of a currency's stability. While, as we have just seen, the pound has varied considerably in relation to the dollar, sometimes rising, sometimes falling, the mean deviation from the yearly average price level in each of the years 1922, 1923, and 1924 has been less in England than in the United States. In 1922 the mean deviation from the British average was 2.87 and from the American 6.34; in 1923 the figures were 2.37 and 2.99 respectively; and in 1924 they were 2.58 and 2.91. If we take the whole period 1922 to 1924 the respective mean deviations were 4.30 and 4.90. Thus, on the basis of the official index numbers, the price level in England has been more stable during the last three years than in the United States. Measured by the standard of purchasing power the pound, which is not on the gold standard and has no regular restriction on its issue, has maintained stability better than the dollar, which is based on gold.

Mr. McKenna describes the effect of the credit supply upon prices and how the central banks affect the supply of credit by their policies, by way of showing that there is a degree of management in any system by which credit is supplied. This is indisputable. He then distinguishes between such regulation and a management which cuts loose from the gold standard in the following statement:

The capacity to increase or diminish the quantity of money, and thereby to depreciate or enhance its value, is inherent in the ordinary powers of a central bank. If the currency is on the gold standard this power can only be exercised within narrow limits, as the movement of gold will very soon act as a check; but where this standard is not in operation the full responsibility for maintaining the value of money falls upon the central bank.

Finally he sums up his discussion and sets forth his conclusion as to the value of the gold standard as follows:

Let me summarize in a sentence what I have said so far. I have endeavored to explain the meaning of managed currency and the method of maintaining its value by regulating the quantity of money through the control of credit, and I have shown that during the last three years a managed currency has been kept more stable than one based on gold. We can supplement this favorable view by the further observation that considerable economy is effected by its use, as there is no need to incur the cost involved in buying and holding gold as a reserve. But when so much has been said, and it must be granted that it is a great deal, the case for a managed currency must be regarded as closed. On the other hand the gold standard has in existing circumstances great and striking advantages. In the first place it establishes an international measure of value, common to the whole world and universally accepted. It is automatic in its operation and it relieves the central banks of a responsibility which, notwithstanding our own fortunate experience, might not always be discharged with the knowledge and judgment indispensable for the prosperity of national trade. It is not, however, wholly inelastic. There is still scope under it for an exercise of discretion by the central institution, as we have seen in the recent action of the Federal Reserve Board. In our own country the effect of a movement of gold can to a considerable extent be counteracted by the Bank of England raising or lowering the ratio of reserve to liabilities.

But in the present state of knowledge and feeling one of the greatest advantages of the gold standard is its moral effect. A nation will think better of itself, will almost regard itself as more honest, if its currency is convertible into gold. The fear of being forced off the gold standard acts as a salutary check on the extravagance of Governments who might be willing to face a mere fluctuation in exchange but would not dare to suspend specie payment. It is a real advantage to a nation to have a currency founded upon a value which is universally recognized; it inspires confidence and facilitates international transactions. Even if the gold standard were not preferable for other reasons its universality would be decisive in its favor. The argument may, it is true, be founded on psychological and not on economic grounds, but it is none the less powerful, as we have not yet reached the stage where economic considerations alone guide us in judging the desirability of any particular method or system. So long as nine people out of ten in every country think the gold standard the best, it is the best. If in the future there were an immense increase or decrease in the output of gold and consequently a startling rise or fall in prices, reconsideration of the subject might be forced upon public attention, but at present there is no single nation, so far as I know, which is now off the gold standard, that does not regard the return to it as the most desirable of all financial measures.

Sir Harry Goschen, Chairman National Provincial Bank

Sir Harry Goschen's comments upon the rise of exchange and the desirability re-establishing the British currency again on a gold basis were in line with the expressions of the other chairmen already quoted. He discussed the state of the leading industries at considerable length, from which the following quotations are made:

The coal industry, one of the most important branches of our trade, still remains in an unsatisfactory condition. The output is lower than in 1923, and our export trade, which amounted to about 62,000,000 tons in 1924, against 79,000,000 tons in 1923, shows a considerable falling off. High costs of production have affected the price, and the enhanced cost of fuel is hampering many of our important industries.

We can, I regret to say, record no improvement in the heavy iron and steel trade. The high cost of coal, to which I have already referred, and heavy expenses in other directions, handicap our manufacturers in meeting the keen competition they experience from Continental producers. We do not know whether our competitors are working at a profit, but I believe only those concerns in this country which are most favorably situated and which are provided with the most modern equipment can produce pig iron and steel billets at the prices quoted to-day by Continental makers.

In December, 1924, there were only 167 furnaces in blast as against 204 during the corresponding month in 1923, and our exports in 1924 of 3,853,000 tons show a falling off of 500,000 tons, while our imports show an increase of over 1,000,000 tons as compared with the previous year.

There is, I am glad to say, some improvement to record in the condition of the cotton trade.

Increased trade is reflected in the figures for the export of piece goods, which amounted to over 4,400,000,000 square yards, as against 4,100,000,000 square yards in 1923, but here again it is doubtful whether the increased trade has produced much additional profit to the exporting merchants. The fierce competition emanating from the Continent which this trade experienced during 1923 has continued, owing to a large extent to depreciated currency and the lower wages and longer hours worked in many of the Continental factories.

The competition arising from the manufacturers in some countries which in pre-war days depended to a large extent on Europe for textile fabrics continues to increase. The number of spindles both in India and China is increasing and the same process is taking place in South America. In Brazil, for instance, it is estimated that over 80 per cent of the cotton goods consumed there are produced in the country, and the number of spindles as compared with 1905 has been more than doubled.

Prices in the United States and England

The British bankers from whom quotations are made above all make comparisons between the price levels, in recent years and particularly the last year, in England and the United States. This is a particularly interesting subject in England just now, because of some apprehension over there that if the British currency is again definitely attached to gold business may be menaced by violent price fluctuations in this country. The objectors say that the United States is certain to dominate gold prices, and as the Americans are likely to run to extremes British business will be whisked this way and that like the tail of a kite. Mr. John Maynard Keynes, professor of economics at Cambridge and a brilliant writer, is the principal proponent of this view. He is the leader of the British group which has been advocating a currency based upon price indexes, as promising greater stability in prices and in industry than is obtainable under the gold standard. The idea has had but little support in financial circles, although in the above quotations Messrs. McKenna and Goodenough refer to index figures which seem to show that prices have had greater stability in England than in the United States over the last several years.

Prices indexes undoubtedly have value, but different indexes are based upon different commodities and tell somewhat different stories, even when based on prices in the same country. Below are four representative index calculations for the United States and three equally representative for England, purporting to represent the price levels in these countries in December, 1923, and December, 1924, all based upon prices in 1913 as 100:

	December, 1923	December, 1924
Federal Reserve Board	163.	165.
Bureau of Labor	151.	157.
Bradstreet's (Jan. 1)	144.1	151.3
Dun's (Jan. 1)	157.1	167.6
Average for U. S.	153.8	160.2
British Board of Trade (Jan. 1)	163.4	170.
London Economist (Jan. 1)	170.1	180.3
London Statist	156.4	173.4
Average for Great Britain	163.3	174.6

In connection with these figures covering the past year it should be considered that the rise shown by all these tables was mainly in food products, and the advance of these in England was modified by the rise in the conversion value of the pound sterling from about

$4.20 to about $4.75. Commodities coming from the United States were cheapened in England by the rise of sterling. Nevertheless, the range of prices was greater in Great Britain than in this country.

The high and low prices within a year are more significant of the range of prices than are the prices at the beginning and end of the year; therefore we give the following table, which shows the high and low prices in each year including and since 1920:

	1920 High	1920 Low	1921 High	1921 Low	1922 High	1922 Low	1923 High	1923 Low	1924 High	1924 Low
Federal Reserve Board	May 269.	Dec. 179.	Jan. 168.	Dec.-June 142.	July-Aug.-Oct. 165.	Jan. 142.	Apr. 170.	July-Aug. 159.	Dec. 165.	June 154.
Bureau of Labor	May 247.	Dec. 179.	Jan. 170.	Dec. 140.	Nov.-Dec. 156.	Jan. 138.	Mar.-Apr. 159.	Aug. 150.	Dec. 157.	June 144.6
Bradstreet's	Feb. 1 226.6	Dec. 1 147.9	Jan. 1 137.5	June 1 115.3	Dec. 1 149.6	Jan. 1 123.5	Mar. 1 151.3	Aug. 1 139.2	Dec. 1 146.9	July 1 132.7
Dun's	May 1 217.8	Dec. 1 175.1	Jan. 1 164.3	July 1 132.2	Dec. 1 153.4	Jan. 1 136.0	Apr. 1 159.7	Jan. 1 153.6	Dec. 1 163.8	June 1 152.1
Average for U. S.	240.1	170.3	158.7	132.4	156.0	134.9	160.0	150.45	158.2	145.9
British Board of Trade	Apr.-May 325.	Dec. 264.	Jan. 246.	Dec. 168.	Jan. 164.	Sept. 154.	Dec. 163.4	Aug. 154.5	Oct-Nov-Dec. 170.	June-July 163.
London Economist*	Mar. 310.1	Dec. 220.	Jan. 208.6	Dec. 161.8	July 163.2	Sept. 155.6	Dec. 170.1	July 155.3	Dec. 180.3	May 168.1
London Statist*	Apr. 312.5	Dec. 243.4	Jan. 231.6	Dec. 156.9	June 159.3	Sept. 150.2	Apr. 157.4	July 146.6	Dec. 173.47	June 160.1
Av. for Gt. Britain	315.9	242.47	228.7	162.2	162.2	153.3	163.6	152.1	174.6	163.7

*End of month.

The Federal Reserve Bulletin carries a table giving index numbers for the average of United States prices and of British currency prices, and also of British prices converted to a gold basis, for each year since and including 1920. The figures for British prices on a gold basis are obtained by converting the currency prices at current rates of exchange:

FEDERAL RESERVE BOARD PRICE INDEX

Year	United States	England Paper	England gold basis
1920, average	239	310	233
1921, average	149	198	156
1922, average	158	165	150
1923, average	165	170	159
1924, average	159	176	160

The most remarkable thing about all these tables is their similarity. It would appear, however, that British prices have been more stable on a gold basis than by the so-called currency standard.

It appears that average prices in the United States fell in 1921 to the lowest level reached in either country, and did not reach the lowest level for England until 1922; nevertheless the fall from 1920 to 1921 was only 90 points in the United States against 112 in England in that year and 145 points in 1922. British prices converted to gold showed a decline of 77 points to 1921 and 83 to the bottom. Prices rallied in the United States in 1922, but not until 1923 in England. It is not strange that recuperation should come more quickly in this country, which is not so dependent upon world trade as England.

Nor is it difficult to explain why prices fell in 1921 to a lower level in this country in relation to pre-war prices than in England. Practically all wage reductions made in this country on account of the depression were made promptly, many of them in the latter part of 1920. The year 1921 was the year of lowest wages, lowest raw material prices, forced sales, and smallest profits, and naturally the general price level was lowest. It was a bad year for employment and business in England also, but wages gave way more slowly and prices came down in like manner. They, however, continued the downward course in 1922, while in the United States recovery set in and wages began to rise in that year.

All Prices Related

In view of these figures and the manner in which they are inter-related, the statement that British currency prices have shown superior stability does not seem to be justified. In truth prices in the two countries hardly can be regarded as separate and independent sets of figures. Many of the principal commodities in the British price table are imported from this country, and their prices are fixed over there by the conversion value of British currency into dollars. The fluctuations of exchange sometimes modify the British price fluctuations on these commodities and sometimes enhance them, as the chance may be, but the two sets of prices are constantly related and acting upon each other. It seems rather farfetched even to suggest that the British currency standard has furnished a demonstration of how well the world could get along without the gold standard.

We find it difficult to believe from the record that the British price-level has been "managed" by anybody in recent years with a view to following an independent course. We suspect that like the price-level in the United States it has merely adjusted itself to prevailing conditions. Probably the greatest factor

in stability there as here has been the immobility of wages. If they had yielded more readily the price changes would have been greater. It is quite certain that the wage-factor has had more to do with price-levels since 1920, as shown by the price-tables in the two countries, than any management of credit.

We have read a lot from foreign and domestic economists about the influence of Federal Reserve policies upon prices in this country, but so far as we have been able to observe there has been little or no foundation for any of it, always excepting of course the free-lending policy of the war and boom periods.

A Limitation Upon the Currency Standard

It is worthy of note that in the years reviewed the currency of Great Britain has been subject to a legal limitation, enacted for the purpose of attaching it to the gold standard. For several years a law has been in force which provides that the amount of uncovered currency notes in circulation in any year shall not exceed the maximum amount outstanding in the previous year. This is a more rigid rule against inflation than is imposed by the Federal Reserve act, and in view of it Great Britain hardly can be said to have been experimenting very extensively with a "managed" currency, if by that term is meant a currency governed in the discretion of some authority.

It would appear from this distance that after allowing for the immobility of wages the principal reason for such price-stability as has existed in Great Britain has been that the volume of business on the whole has not changed very much, a fact which has caused disappointment rather than satisfaction. We incline to doubt that anybody has been "managing" the currency to maintain this state of stagnation, and have the idea that there as here the general situation, including the price-level, has been controlled by conditions more fundamental than bank policies. It seems to us very desirable that the public **shall not** have mistaken ideas on this subject.

The Bond Market

Notwithstanding the large number of new foreign issues on this market in recent months, and the very large aggregate of offerings since the beginning of the year, the bond market has been strong, with dealers reporting an actual shortage of securities with which to meet the requirements of investors. All important new issues were reported as sold immediately upon the announcement of the offerings. The advance of the Federal Reserve discount rate on February 27 had a quieting effect, but the market was well sustained. The government issues yielded about an eighth of one percent. The fourth Liberty 4¼ are now at about 101¾, against 104, the high point last Fall.

The Treasury redeemed $118,000,000 4 per cents on February 1, as per previous call. These bonds were largely owned by national banks and in use as security for circulating notes, and inasmuch as there are no outstanding governments that can be advantageously substituted, the aggregate of national bank circulation will be somewhat reduced.

The Dow-Jones figure for the combined average of 40 bonds (ten high grade rails, 10 second rails, 10 industrials, and 10 public utilities) on February 25 was 91.66 as compared with 91.10 on January 27.

Among the more important offerings which have been placed on the market during the month were those listed below, which it will be noted include a substantial volume of foreign government, industrial and railroad issues. It is believed by many bankers that due to the scarcity of domestic issues they will have to look to the foreign field to a greater extent than heretofore for new securities with which to meet the investment demand.

$35,000,000	Canadian National Railways Gtd. 4½s; $18,000,000 5 year Bonds due February 15, 1930, and $17,000,000 10 year Bonds due February 15, 1935, price 5 year Bonds 99⅞ and interest, to yield over 4.52 per cent, and 10 year Bonds 97⅝ and interest, to yield over 4.80 per cent.
50,000,000	Consolidated Gas Co. of New York 20 year Deb. 5½s, due February 1, 1945, price 100 and interest.
30,000,000	New York Edison Co. 1st Lien and Ref. "B" 5s, due October 1, 1044, price 100 and interest.
20,000,000	Est Railroad Co. of France Ext. S. F. 7s, due November 1, 1954, price 87½ and interest, to yield over 8.10 per cent.
15,000,000	Magnolia Petroleum Co. Deb. 4½s, due $1,500,000 each February 15 from 1926 to 1935, inclusive, prices to yield 4.25 to 4.90 per cent, according to maturity.
15,000,000	Saxon Public Works, Inc., 20 year 1st S. F. Guar. External 7s, due February 1, 1945, price 92 and interest, to yield about 7.80 per cent.
12,500,000	Wabash Railway Ref. and Gen. "A" 5½s, due March 1, 1975, price 96 and interest, to yield about 5.75 per cent.
25,000,000	Govt. of the Argentine Nation 6 mos. Treasury 4¼ per cent Gold Notes, due $20,000,000 August 25, 1925, and $5,000,000 due September 1, 1925, price 100 and interest.
8,820,000	Missouri Pacific R. R. Equip. Trust 5s, Series "D," due $588,000 each August 1 from 1926 to 1940, inclusive, prices to yield 4.25 to 5 per cent, according to maturity.
5,000,000	State of West Virginia 4s and 4½s, 4½s maturing from 1931 to 1938, inclusive and 4s maturing from 1938 to 1950, inclusive, at prices yielding from 4.05% to 4.10% on the 4½s and from 99¾ to 99½ on the 4s.
35,000,000	Republic of Poland 25 year S. F. Ext. 8s, due January 1, 1950, price 95 and interest, to yield 8.53 per cent.
10,000,000	Province of Quebec, Canada, 25 year S. F. 4½s, due March 2, 1950, price 97¾ and interest, to yield over 4.65 per cent.
30,000,000	United States Rubber Company 6½ per cent Gold Notes, due from March 1, 1926, March 1, 1940, inclusive, prices to yield 5.20 to 6.82 per cent, according to maturity.

The Railroads

The result of the late presidential election has been generally accepted as giving assurance that the railroads would have a breathing spell from hostile legislation which would give them a chance to reinstate themselves with the investing public and plan a development of the transportation system to suit the growing needs of the country. Undoubtedly the situation has improved materially. Railroad stocks and securities have shared largely in the appreciation of values which has been reflected on the stock exchange in recent months; in fact they led the upward movement, although they have not been as conspicuous in the speculative activities as some of the industrials. As a rule market quotations are still below the levels of pre-war times, and while the best companies are again able to borrow on fairly favorable terms, practically none have yet attempted any financing by the sale of common stock. This is the test of complete restoration of confidence. The railroads will not have a sound financial status until the public is willing to finance needed capital expenditures in part by the purchase of proprietary interests. No kind of a business can go on indefinitely providing for expansion by means of borrowed capital. In time this would reduce its obligations to a status no better than that of stock.

New York, New Haven & Hartford Financing

The New York, New Haven & Hartford railroad company has just accomplished a feat of financing that is unique in railroad experience and very gratifying as a showing of cooperation between the management, the employes and the communities which the company serves. As everybody knows, the company has not been able to pay any dividends upon its stock for many years, the last of such payments having been made in September, 1913. Moreover, it has had a hard struggle to meet its fixed charges and provide the necessary equipment to meet the increasing needs of the territory it serves. The stock sold as low as $14.12½ per share in 1924 and the price in the last month has been around $30 per share. In this position it has had to face the maturity of a bond issue of $23,000,000 on April 1st. The debt could be met only by new borrowing, and by the ordinary rules which investment houses apply, the company was not in position to raise the money. The new loan could not be offered to the public in the usual manner with any expectation of success, but the money had to be raised to avert a receivership.

The original loan was issued in 1907 for 15 years, and matured in 1922, but an arrangement was made at that time for an extension of 90 per cent of the bonds at 7 per cent interest.

The management determined to make an effort to meet the emergency by an appeal to the industries and general public along its line to buy an issue of 15-year 6 per cent debenture bonds secured by an equal amount of bonds first and refunding mortgage running the same term. The members of the Board of Directors led off with subscriptions for $1,000,000, and up to February 26th subscriptions had been made as follows:

	N. Y.	Conn.	R. I.	Mass.	Misc.	Total
Banks	$3,856,500	$1,432,500	$550,000	$3,733,500	....	$9,572,500
Industries	4,061,500	3,481,500	385,000	1,860,500	2,233,000	12,021,500
Individuals	468,600	1,279,000	128,900	752,300	131,200	2,760,000
Total	$8,386,600	$6,193,000	$1,063,900	$6,346,300	$2,364,200	$24,354,000
By exchange of old bonds						112,200
						$24,466,200

To this may be added $605,000 addition which is promised, or a grand total of $25,071,200.

Included in the amount credited to industries are subscriptions by insurance companies, and included in the amount credited to individuals are saved from subscriptions aggregating about $600,000 from employes. The result is extremely gratifying to the management, and a fine exhibition of the spirit of cooperation which ought to exist between a public service corporation, its employes and the public which it serves. All of these parties are interested in having the company outside financial embarrassment.

With this maturity care for outside of loans running to the United States Government falling due in the early thirties, the company is clear of maturing debts until 1940. The road is now making progress in net earnings and is believed to be on the way out of its troubles, of which it has had a long chapter.

In answer to an inquiry as to the results of recent expenditures for improvements on the property President Pearson has made the following statement:

The constantly increasing business of the past five years has been handled with a marked reduction in cars on the line, as indicated below.

	Gross Ton Miles Thousands	Serviceable Cars on Line	G.T.M. per Serviceable Car per Month	Pct. with 1920 as the base
1920....	6,411,997	41,930	12,743	100
1921....	6,332,321	31,926	16,528	130
1922....	6,534,245	33,333	16,336	128
1923....	7,368,292	37,046	16,575	130
1924....	7,522,821	30,294	20,694	162

In other words in 1924 an increase of 17 per cent in gross ton miles was handled with a decrease of 28 per cent in serviceable cars on the line. If in 1924 the gross ton miles per serviceable cars had been the same as in 1923 there would have been 7,528 more cars on the line daily than the number actually required. The result of this is shown in the decreased charge for hire of freight cars in 1924 under 1923, amounting to $2,447,811.

The Chicago, Milwaukee & St. Paul Maturity

The next big refunding problem in the railroad world is that of the Chicago, Milwaukee & St. Paul Company, which has $48,000,000 falling due in June. The company failed by about $1,800,000 to earn its fixed charges in 1924, but in the month of January, 1925, showed a substantial gain of both gross and net over the corresponding month last year. An examination of the properties of the system is now being made by independent engineers, and when their report is in hand a conference will be held to determine what can be done. The company has one of the great systems of the country, running through a territory which undoubtedly has great latent possibilities; moreover, the immediate outlook is for better conditions. The earnings of the railroads of the northwest have been for several years lower in percentage upon the property investment than those of any other section of the country, as appears below.

Statistics of 1924 Earnings

The net earnings of the Class I roads, as grouped by the commission in 1924 were as follows, the percentage calculation being based upon the commission's tentative valuation of the properties:

Region.	Net railway operating income	Rate earned, per ct.
New England Region	$ 35,727,730	3.74
Great Lakes Region	183,333,460	4.84
Central Eastern Region	194,911,371	4.26
Pocahontas Region	52,525,674	6.03
Total Eastern District	$466,498,235	4.58
Total Southern District	$142,554,438	5.20
Northwestern Region	104,873,704	3.12
Central Western Region	181,262,509	4.21
Southwestern Region	91,944,778	4.34
Total Western District	$378,080,991	3.87
Total All Districts	987,133,664	4.35

The gross operating revenues of the Class I roads amounted to $5,986,492, a decrease of $373,931,000 as compared with 1923. Operating expenses, however, were reduced by $386,827,600, thus making net operating earnings slightly larger. Compared with 1920 operating expenses in 1924 were lower by $1,272,000,000, of which $670,000,000 were passed along to the public through reduced charges.

The percentage of net earnings to invested capital in 1924 was 4.35, as against 4.49 per cent in 1923 and 5¾ per cent named by the commission as the "fair return" which the companies are entitled to earn.

Shippers Regional Advisory Boards

An important recent development in the relations between the railroads and the public has been the organization of regional advisory boards in different parts of the country, composed of representatives of the various branches of industry and business. The purpose is to provide a medium for conference between the railroads and all branches of industry and agriculture. Ten regional boards, each with thirty or more standing committees, have thus far been formed; the total membership exceeds 6,000, including representatives of industrial, trade and farm organizations, and individuals from various lines.

The initiative in the organization of these boards has been taken by the car-service division of the American Railway Association, for the purpose of establishing close relations between the roads and the shippers in all matters which come under the jurisdiction of the car service division, to-wit, affecting car supply and car service. Those who are familiar with the work of these associations give them a large degree of credit for the high standard of efficiency which has characterized railroad operations in recent months, when the volume of traffic has exceeded all previous records. The information supplied by the boards has been of much assistance in enabling the railroads to plan for the traffic, and the conferences between the boards and the operating officers have done much to promote good understanding and co-operation. It is believed that the boards will do much to improve service and create harmonious relations.

Some of the larger aims in view of the Atlantic States advisory board for 1925 have been summed up by Major Elihu C. Church, engineer of the New York Port Authority, as follows:

(1) A reorganization of the store door delivery committee, which is expected to lead to a speedy application of the board's store door plan in some eastern city.

(2) Perfection of the scheme for handling perishable freight.

(3) A concerted effort to work out with the railroads a plan to equalize the flow of traffic throughout the year and to gain a greater utility of the freight car.

(4) The projection of a new plan for the pooling of less than carload freight which is expected to result in substantial savings for the railroads and faster service for the shippers.

The Standard Return

The latest suggestion as to modifications of the standard return contemplated by the Esch-Cummins act is that the amount of the funded debt of a railroad shall be deducted from the valuation of the property, leaving only the remaining equity as entitled to the "fair return" fixed by the commission, interest payments being classed practically as operating expenses.

At present an individual railroad may divide among its stockholders all earnings up to 6

per cent upon the actual investment in property devoted to the transportation service, and stockholders have the benefit of the difference between interest payments on the funded debt and that standard rate of return allowed on the property. The new proposal is aimed to deprive them of it upon the theory that they contribute nothing to it.

The idea is not wholly original. The Federal Trade Commission in the case against the meat packers remarked upon the unearned increment obtained by making a profit on borrowed money, and the same theory has been advanced to govern the computation of house rents where they were fixed at a certain percentage of the property value.

The fallacy of the theory is in the failure to recognize that the property-owner who pledges his entire interest to secure the mortgage has diminished the value of his interest by precisely the amount that he has enhanced the security of the mortgage loan. Investors will lend capital to a railroad company upon the security of a mortgage bond at a comparatively low rate of interest, provided other investors will supply an important part of the capital required for the construction of the road and take stock for their interest, thus subrogating their rights to the rights of the bond-holders. It is the investment made by the stockholders which makes it possible to sell bonds bearing interest rates below the return expected from business investments.

The inducement to borrow money and pledge property as security is the expectation of a margin of profit. Remove that inducement and capital will not be borrowed by house-builders, meat-packers or railroad proprietors. Everybody will confine himself to the employment of his own capital. When this is understood it will be seen that the new scheme for regulating returns to railroad stockholders is just one more attempt to make conditions that serve one side only; in other words one more attempt to "have it both ways."

Milan Branch

A branch of this Bank has been opened during the past month at Milan, Italy, in charge of Mr. Herbert Furrell formerly connected with our affiliated institution, the National City Bank of New York (France), S. A. The new branch will provide direct American banking connections with this important industrial and financial center of northern Italy, and will be found a convenience to firms or persons having business relations with that region or remittances to make there. The banking house is located on the Piazza Corduzio, in the heart of the business district. This is the second branch to be opened by The National City Bank in Italy, the branch at Genoa having been in operation since October, 1916. The Bank now has thirty-eight foreign offices, located in Argentina, Belgium, Brazil, Chile, Cuba, England, France, Italy, Peru, Porto Rico, Uruguay, and Venezuela. In addition to these, its subsidiary, the International Banking Corporation, is operating 32 offices in eleven countries.

CHANGES IN EXPORTS AND IMPORTS 1923 to 1924

The fluctuations in exchange rates are based at last upon the trade relations, or more accurately the trend of payments for all purposes, between the countries. It is interesting to take note of the commodities which are most important in determining exchange rates between the United States and the oustide world. Of the principal commodities exported from U. S. in calendar year 1924, the following showed increases compared with 1923:

Of the principal commodities exported the following showed increases:

		1923		1924	
		Quantity	Dollars	Quantity	Dollars
Cotton	Bales	5,279,000	$807,102,500	6,794,921	$950,580,940
Wheat	Bushels	98,533,482	116,492,000	166,301,738	237,113,867
Wheat, Flour	Barrels	16,309,856	88,150,902	15,989,760	91,220,000
Rye	Bushels	30,850,139	28,214,801	35,666,000	39,233,000
Dairy Products		....	27,336,925	....	27,568,682
Oleo Oil	Pounds	98,954,900	11,841,000	99,379,870	14,113,000
Fish		....	16,996,615	....	20,320,142
Hides and Skins	Pounds	36,012,000	4,893,959	105,088,658	12,798,716
Leather		....	42,834,000	....	49,189,617
Fruits, All		....	67,450,097	....	96,498,570
Tobacco Leaf	Pounds	474,500	152,203,000	546,257,000	162,585,000
Rubber Manufactures		....	36,972,000	....	39,650,000
Naval Stores		....	25,177,000	....	25,653,900
Silk Manufactures		....	11,136,000	....	14,148,000
Copper and Manufactures	Pounds	828,974,790	129,178,900	1,115,880,000	156,807,000
Petroleum, Crude	Gallons	716,552,000	23,111,800	742,132,850	26,580,000
Refined Oils	Gallons	3,270,638,000	326,599,000	3,919,538,000	391,896,000
Gasoline	Gallons	845,033,000	137,680,748	1,189,209,000	167,734,000
Kerosene	Gallons	847,909,000	76,554,000	912,828,889	88,198,953
Gas and Fuel Oil	Gallons	1,228,944,000	35,708,000	1,437,351,923	49,261,596
Paraffine	Pounds	329,792,300	11,429,300	382,820,000	18,525,000
Tin Plate	Pounds	278,887,000	14,791,960	360,623,000	19,430,000
Tools		....	15,709,800	....	15,822,000
Machinery		....	287,910,000	....	317,035,000
Automobiles		152,096	106,295,500	178,883	131,922,700

Of important commodities exported the following showed decreases:

	Unit	1923 Quantity	1923 Value	1924 Quantity	1924 Value
Meats	Pounds	1,036,608,000	$149,968,000	803,394,000	$113,844,000
Lard	Pounds	1,035,381,000	130,171,000	944,095,000	125,728,000
Rice	Pounds	292,851,000	11,574,000	122,615,000	6,023,000
Sugar, Refined	Pounds	444,915,000	28,933,000	440,271,000	24,015,000
Iron and Steel		....	234,355,000	....	221,057,000
Tobacco Manufacturers		....	25,769,000	....	22,056,000
Pneumatic Casings	Numbers	1,362,000	15,293,000	1,249,967	15,012,000
Turpentine	Gallons	11,478,000	12,304,000	11,510,000	10,105,000
Cotton Manufacturers, (All)		....	138,045,000	....	132,710,000
Wood and Manufacturers of		....	145,968,000	....	142,849,000
Paper		....	25,663,000	....	24,579,000
Corn	Bushels	42,187,000	36,805,000	18,336,000	17,789,000

Of the principal imports of the United States in calendar year 1924, the following showed increases in value compared with 1923:

		1923 Quantity	1923 Value	1924 Quantity	1924 Value
Animals		....	$7,483,000	....	$9,366,000
Fish	Pounds	270,624,000	26,672,000	299,199,000	30,024,000
Grains, etc.		....	24,061,000	....	26,477,000
Vegetables, etc.		....	25,685,000	....	27,561,000
Fruits and Nuts		....	69,414,000	....	72,636,000
*Coffee	Pounds	1,409,755,000	190,232,000	1,416,935,000	248,855,000
Spices	Pounds	103,587,000	13,639,000	99,588,000	16,225,000
Tobacco (Total)		....	66,849,000	....	83,881,000
Copper (Total)		....	95,988,000	....	96,184,000
Lead (Total)		....	14,612,000	....	15,657,000
Tin Bars, etc.	Pounds	154,411,000	61,092,000	145,723,000	68,953,000
Coal Tar Chemicals		....	17,274,000	....	20,119,000
Fertilizers	Tons	1,858,000	63,913,000	1,895,000	66,531,000
Art Works		....	29,496,000	....	31,719,000
Laces, Cotton Embroderies		....	17,013,000	....	20,106,000
Manila Hemp	Tons	106,000	13,785,000	82,000	14,345,000
Sisal	Tons	100,000	10,923,000	114,000	16,274,000
Paper, Newsprint	Pounds	2,617,686,000	98,021,000	2,714,467,000	101,297,000
Mineral Oil	Gallons	4,183,536,000	78,154,000	3,970,450,000	100,712,000
Carpeting	Square Yards	2,646,000	13,952,000	2,804,000	15,153,000

*For tea, Cocoa, etc. see table of decreases.

Of the principal commodities imported, the following showed decreases:

		1923 Quantity	1923 Value	1924 Quantity	1924 Value
Hides and Skins	Pounds	531,567,000	$118,917,000	356,552,000	$75,052,000
Rubber, Crude	Pounds	692,483,000	185,060,000	735,980,000	174,245,000
Tobacco, Wrapper	Pounds	7,708,000	18,134,000	5,894,000	15,099,000
Oil Seeds and Vegetable Oils		....	68,582,000	....	49,462,000
Cotton, Raw	Pounds	187,365,000	49,442,000	160,616,000	48,596,000
Cotton Manufacturers, Total		....	100,153,000	....	90,914,000
Jute and Manufacturers of		....	85,492,000	....	74,338,000
Artificial Silk	Pounds	7,518,000	10,209,000	7,636,000	5,839,000
Wool and Manufacturers of		....	198,828,000	....	162,461,000
Silk and Manufacturers of		....	446,236,000	....	372,742,000
Wood and Manufacturers of		....	121,084,000	....	112,095,000
Cheese	Pounds	64,420,000	20,888,000	59,176,000	17,299,000
Coal, Bitumen	Tons	1,681,000	10,135,000	375,000	2,146,000
Wheat	Bushels	19,502,000	19,229,000	15,534,000	15,590,000
Precious Stones		....	77,529,000	....	73,608,000
Iron, Ore	Tons	2,768,000	11,309,000	2,047,000	10,581,000
Iron and Steel Manufacturers		....	31,035,000	....	28,967,000
Machinery and Vehicles		....	20,360,000	....	16,583,000
Cocoa	Pounds	414,237,000	33,807,000	378,282,000	29,425,000
Tea	Pounds	105,138,000	29,683,000	92,708,000	27,197,000
Cane Sugar	**Pounds**	**7,709,337,000**	**380,090,000**	**8,271,607,000**	**363,513,000**

THE NATIONAL CITY BANK OF NEW YORK